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Polysar Limited/annual report nineteen seventy three

POLYSAR

File

The Polysar group of companies

CANADA

POLYSAR LIMITED
Sarnia, Ontario, (Corporate Headquarters)

BUILDING SYSTEMS DIVISION
Milton, Ontario

KAYSON PLASTICS DIVISION
Cambridge, Ontario

COM-SHARE LIMITED
Rexdale, Ontario

GENERAL PLASTICS COMPANY LIMITED
Cookshire, Quebec

PETROSAR LIMITED
Sarnia, Ontario

TRENT RUBBER SERVICES LIMITED
Lindsay, Ontario

UNITED STATES

MAMMOTH PLASTICS INC.
Wellsburg, West Virginia

POLYSAR INCORPORATED
Akron, Ohio

POLYSAR LATEX INC.
Chattanooga, Tennessee

POLYSAR PLASTICS INC.
Stamford, Connecticut

POLYTHERM DIVISION
Middletown, New York

DECORATIVE COMPONENTS DIVISION
Forest City, North Carolina

POLYSAR RUBBER SERVICES INC.
Barberton, Ohio

SOLAR CHEMICAL CORPORATION
Leominster, Massachusetts

EUROPE AND REST OF WORLD

COM-SHARE LIMITED
London, England

POLYSAR AUSTRALIA PTY. LTD.
Sydney, Australia

POLYSAR BELGIUM N.V.
Antwerp, Belgium

POLYSAR DEUTSCHLAND GmbH
Neu-Isenburg, Federal Republic of Germany

POLYSAR DO BRASIL PRODUTOS QUIMICOS LTDA.
Sao Paulo, Brazil

POLYSAR EUROPA S.A.
Brussels, Belgium

POLYSAR FRANCE S.A.
La Wantzenau (Bas-Rhin), France

POLYSAR GmbH
Frankfurt, Federal Republic of Germany

POLYSAR HANDELMAATSCHAPPIJ B.V.
Amsterdam, The Netherlands

POLYSAR INTERNATIONAL S.A.
Fribourg, Switzerland

BRANCH OFFICES:
Sao Paulo, Brazil
Tokyo, Japan
Mexico City, Mexico
Barcelona, Spain

POLYSAR ITALIANA S.P.A.
Milan, Italy

POLYSAR LTD.
Grand Cayman Islands

POLYSAR NEDERLAND B.V.
Amsterdam, The Netherlands

POLYSAR SKANDINAVISKA A.B.
Goteborg, Sweden

POLYSAR TECHNICAL SERVICE CENTRE N.V.
Antwerp, Belgium

POLYSAR (U.K.) LIMITED
Guildford, England

SOCIETE FRANCAISE POLYSAR
Neuilly/Sein, France

SYNTHETIC ELASTOMERS DEVELOPMENT S.A.
Fribourg, Switzerland

OTHER INTERESTS

BELLAPLAST Group of Companies
Federal Republic of Germany, Switzerland, Austria, The Netherlands

HULES MEXICANOS S.A.
Mexico City, Mexico

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Polysar Limited/annual report nineteen seventy three

POLYSAR

In 1973 the company made good progress toward achieving its strategic goals, featured by strong growth in sales and improved profits. Net sales grew by 28%. Net income amounted to $11.1 million or $5.55 per share, providing an 8.2% return on equity. This compared with $7.4 million or $3.69 per share and a 5.9% return in 1972.

The year in brief

	1973	1972
	Thousands of Dollars	
Net sales and other income	**261,357**	205,628
Provision for income taxes	**4,604**	2,986
Net income before extraordinary items	**12,594**	8,677
dollars per share	**6.30**	4.34
Extraordinary items	**1,502**	1,299
Net income	**11,092**	7,378
dollars per share	**5.55**	3.69
Return on shareholder's equity, %	**8.2**	5.9
Dividend	**1,200**	750
Working capital	**77,266**	55,111
Capital spending	**61,014**	20,044
Net plant and equipment	**138,293**	109,704
Payroll and benefits	**61,593**	50,980
Number of employees at year-end	**6,317**	4,856

Message of the president

In 1973, Polysar Limited made good progress toward the achievement of its strategic goals, featured by strong growth in sales and rising profitability. Net sales grew by 28 percent to $257.1 million, profit before extraordinary items increased by 45 percent to $12.6 million or $6.30 per share and assets employed at year end of $341.5 million were higher by 44 percent. After taking into income extraordinary items, net income amounted to $11.1 million, or $5.55 per share, compared with $7.4 million, or $3.69 per share in 1972.

These results were achieved in a business environment marked by a strong world economy through much of 1973 and by a lower value of the Canadian dollar opposite other major currencies, which had a favourable effect on consolidated performance. This environment, however, was clouded by worsening world inflation, domestic dificulties in the United States, new international tensions and spreading raw material shortages the impact of which was made more sudden and severe by the oil shortages arising out of the Middle East situation.

Rubber and latex results improved in all markets, most notably in Europe, as a result of strong demand and increased prices. Rising costs were, however, experienced throughout the year. Profitability in the plastics sector was improved significantly although critical shortages, higher costs and the effects of U.S. price controls limited the results that might otherwise have been achieved, especially in the case of fabricated products. The information processing venture recorded steady growth in sales revenue and made progress toward achieving profitability. Our building systems division experienced start-up delays and incurred a substantial loss. A reorganization was effected and by mid-year, product design and production changes had been made, management strengthened and a new strategy adopted based on acquiring a builder-developer capability to complement manufacturing activity.

In previous reports, reference has been made to the problems of the Canadian petrochemical industry and the steps Polysar is taking to ensure adequate future supplies of raw materials at competitive prices. These actions have recently culminated in the incorporation of a new company by Polysar, DuPont of Canada, Union Carbide of Canada and Koch Canada Fuels Limited. The new company, Petrosar Limited, in which Polysar has taken a 51 percent interest, proposes to build and operate a crude oil topping and naphtha cracking unit in the Sarnia area to provide petrochemical raw materials and fuel products which will be contracted to the partners and to other customers. The products of particular interest to Polysar are butadiene, isobutylene, ethylene and benzene. Gasoline and fuel oils from the project will be taken by the partners for use or for sale in energy markets. The facility, with a capital requirement in excess of $250 million and a capacity rating of 1 billion pounds per year of ethylene, will be comparable in size with the larger producing plants in the world. It constitutes a major step forward in improving the position of Canada's petrochemical industry and affords important opportunities for additional downstream investment. An early start on plant construction is planned with start-up projected for 1977 and capacity operation in 1979.

Coincident with the above, planning is well advanced in Polysar for construction of a new world-scale styrene monomer plant in Sarnia. The Canadian market for styrene is growing at a rate of at least 10 percent per year and the proposed facility fits well with Polysar's world-wide operations which use this basic product.

Petrochemical investments such as the foregoing rely on a competitive business climate of which tax policy is an integral part. Because of their value in helping to achieve manufacturing competitiveness, the provisions in Canada for full capital cost allowance over a two-year period and for reduction in the combined federal-provincial tax rate need to be maintained.

Establishment of a European plastics operation was another significant development of 1973. Late in the year an agreement was concluded with the Bellaplast group of companies, producers of semi-rigid food-related containers, whereby Polysar acquired a substantial interest. The Bellaplast group is a multi-national company with

main headquarters in Wiesbaden, The Federal Republic of Germany. Founded in 1957, it is now the largest company in its field in Europe and maintains a world position of technological pre-eminence. In addition to being the leading converter of plastic cups and containers, Bellaplast has an integrated mould and machinery making capability and has built an international licensing and machinery sales business. This move provides Polysar with a strong base for future growth in Western Europe and the opportunity to transfer unique technology to North American operations and markets.

In a year marked by rapidly rising living costs, there was significant activity in the field of labour relations and collective bargaining. Five of the company's eight collective agreements at locations in Canada and the United States were renegotiated. Several relatively minor interruptions to production occurred during the year. It is clear that inflationary pressures will continue to make a significant impact on wage and salary costs in the period ahead.

Three new directors were elected at the annual meeting in 1973: François E. Cleyn, Chairman and President, Cleyn & Tinker Limited and a Director of the Canada Development Corporation; Marshall A. Crowe, at that time Chairman, Canada Development Corporation, and David C.H. Stanley, Vice-President and Director, Wood Gundy Limited. It is with regret that we record the death last November 26 of Mr. Cleyn who had quickly become knowledgeable of the company and contributed greatly through his extensive business experience. We also regret the resignation of Mr. Crowe in October on the occasion of his appointment as Chairman of the National Energy Board.

The elections referred to above provided replacements for three retiring members of the Board: Pierre Lorange, Montreal; W. Harold Rea, Toronto; F.H. Sherman, Hamilton. These directors, who together accounted for 23 years association with the company, made substantial contributions to the development of Polysar through their wise counsel and keen interest in the company's affairs.

The events of past months are likely to have a slowing effect on world business at least through 1974. Growth will be challenged by the need to deal with inflationary pressures, by varying degrees of interference in wage and price determination, by adjustment to shortages and changing values in the energy field, by raw material shortages of considerable duration and by currency uncertainties related to balance of payment pressures.

For Polysar, the near and long term uncertainties brought about by forces of change, including the dynamic situation in foreign currency markets, are heightened by the direct association we have with the energy situation. We are obviously affected by it from both the market and the supply side and at this stage the outlook is obscure. The energy supply problem does, however, provide new challenge and opportunity. There is scope for continued growth in our rubber, latex and plastics businesses and for the evolution of new products in response to changing needs. Although this growth is dependent on the availability of raw materials, the company's competitive position is favourable. Sales volumes are expected to be limited by shortages in 1974 but we anticipate an ability to reflect rising costs in higher selling prices and expect to benefit from recent investments in the plastics field.

For building systems, we will be striving to achieve or exceed design productivity in the factory and to test the new marketing program. The business environment for on-line computer services appears to be favourable and, while progress toward our profit goals is expected, the company is faced with a sizeable challenge to bring this business to an acceptable level of profitability.

On balance, Polysar should continue to register growth and improved results. This is essential, recognizing that the return on shareholders' equity of 8.2 percent in 1973 was unsatisfactory compared with returns achievable in industries where investment is at substantially less risk.

The achievements of 1973 are due in large measure to the team effort of all Polysar people in adapting to extreme uncertainties and rapid change. Their contribution is gratefully acknowledged. The challenge of change will continue and I am fully confident that our employees will continue to respond constructively.

For the Board of Directors,

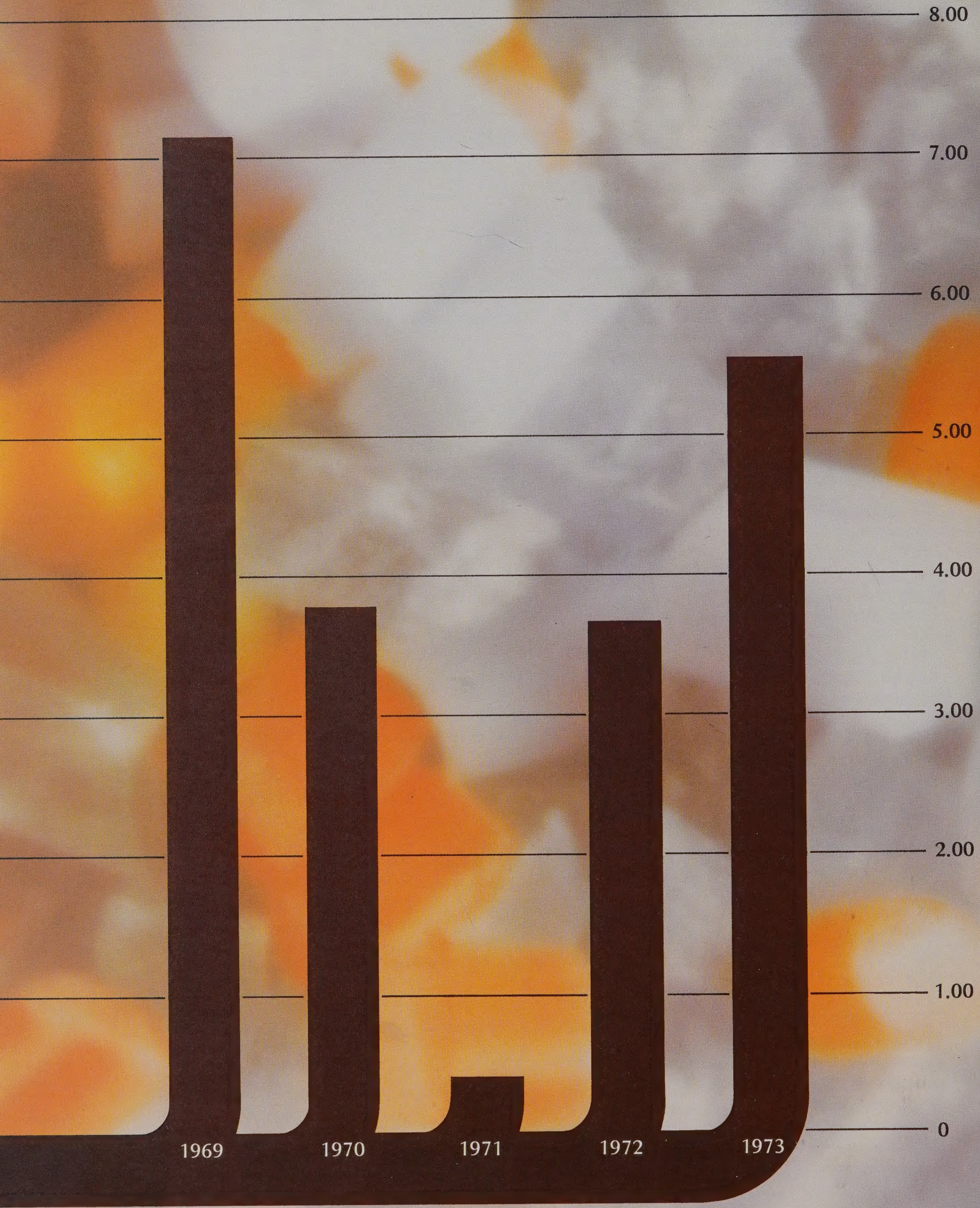
Ian C. Rush

I.C. Rush
President and Chief Executive Officer

Sarnia, Ontario

Earnings per Share

Dollars



The year in review... operations

Rubber

"— our objective is to maintain a position as a major supplier of general purpose rubbers to the tire industry and to strengthen our position as an important factor in the supply of rubber and related services to the non-tire rubber industry."

Economic recovery in Canada and the United States and accelerating growth in Europe and Japan were reflected in improved sales performance of POLYSAR rubbers in 1973. Total volume was 10 percent above last year's level in most geographical areas. The extremely buoyant markets not only created strong demand for our products but also added to growing supply shortages. Price increases for many product lines, in some cases the first in over 20 years, were introduced during the year in response to rising material and other costs.

A world-wide shortage of general purpose rubber capacity, which had developed as a result of several years of low profitability and low investment, was further aggravated in 1973 by a dramatic change in the supply-demand balance induced by monomer scarcity and improved demand. Polysar had entered the year with a low inventory carry-over from the previous year and was affected by shortages of raw materials during the final quarter of 1973.

Markets for oil-resistant rubbers kept pace with buoyant economic activity. Sales benefited from successful development of the business and technology acquired in 1972 from a U.S. producer. Polysar's world production increased significantly over 1972 but was unable to satisfy demand.

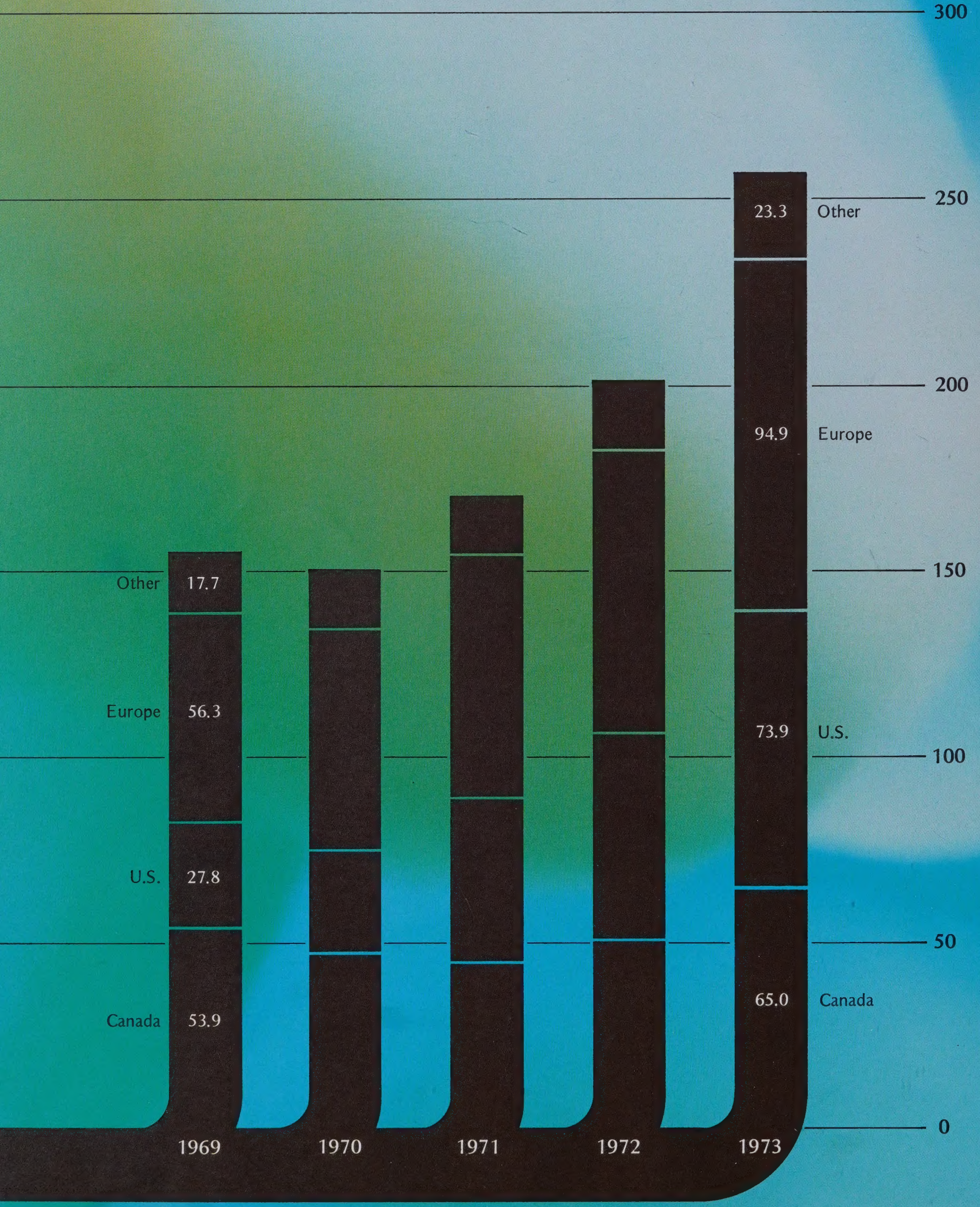
During the year productivity improvements were achieved at the Antwerp butyl plant and a major expansion was completed ahead of schedule. This additional capacity will enable Polysar, as the world's second largest supplier of butyl rubbers, to maintain its share of the global market. Market development of the new specialty product, bromobutyl, proceeded satisfactorily during the year although at a lower pace than planned. Sales volumes reached significant levels.

Growth and increased penetration of the high-impact polystyrene market and greater demand from the tire industry accounted for a substantial increase in sales of POLYSAR polybutadiene rubbers despite capacity limitations.

In 1973, an initial move into the custom mixing business in the United States was made with the acquisition of the mixing business of Nye Rubber Company, Barberton, Ohio. Now operating

Sales Revenue

Millions of dollars



under the name of Polysar Rubber Services, Inc., the company provides compounding services and rubber compounds to the growing technical segment of the rubber industry. Capacity at Trent Rubber Services, Lindsay, Ontario, Polysar's first entry in this field, was significantly increased during the year with the installation of additional mixing equipment.

Sale of Polysar technology was actively pursued during 1973. An agreement was completed with the Indian Petrochemical Corporation Limited for the use of Polysar technology in the design, construction and operation of a 20,000 ton polybutadiene rubber plant at Baroda, Gujarat State. Process design and detailed engineering were well advanced by the end of the year. A joint venture study company was formed with Nippon Petrochemical Company Limited to consider the optimum timing and economic feasibility for the construction of a butyl rubber facility in Japan, the plans for which were postponed over a year ago. Staff was actively engaged in several other projects including a license agreement for a polybutadiene plant in South America.

The rubber business will continue to be affected by world shortages of many raw materials which are expected to prevail throughout 1974. At year-end, product inventories had been significantly depleted in an effort to serve customers. A major effort will be required to rebuild them to levels consistent with the traditional high quality of Polysar service. Procurement and allocation of scarce supplies, which in 1973 were the subject of major management activity and strategic review, will continue to receive close attention.

Latex

"— we aim to be a major supplier of latex primarily to the carpet textile and paper industries in North America and Western Europe."

In 1973, sales of POLYSAR latices in the United States and Europe increased significantly from the previous year in response to strong demand from the high-growth industries which they serve. With an average annual growth in volume of about 30 percent over the past three years, Polysar has become one of the largest global suppliers of high and medium solids latices. Polysar now produces about one-quarter of the rubber latex produced in North America and Europe. Selling prices, which previously were under some downward pressure, were increased in all markets to reflect the higher costs of raw materials.

The plants in Canada, the United States and France were operated at high production rates throughout the year. Additional capacity for both high solids and carboxylated types is being installed in France and will be commissioned early in 1974 to augment supply to the European area. Late in 1973, raw material shortages began to restrict production and sales, a situation which is carrying over into 1974.

Research, development and technical service continue to play key roles. In addition to ensuring quality products to meet a wide range of applications, experienced and knowledgeable personnel backed by laboratory and pilot scale facilities in both North America and Europe provide the customer with a systems approach to his operations. During the year, significant research led to full scale production and marketing of a new paper latex. First in the field with a no-gel latex foam system, Polysar also introduced in 1973 a high-solids, self-gel latex for carpet-backing. This product, which combines the advantages of previous types with ease of application, has been well received.

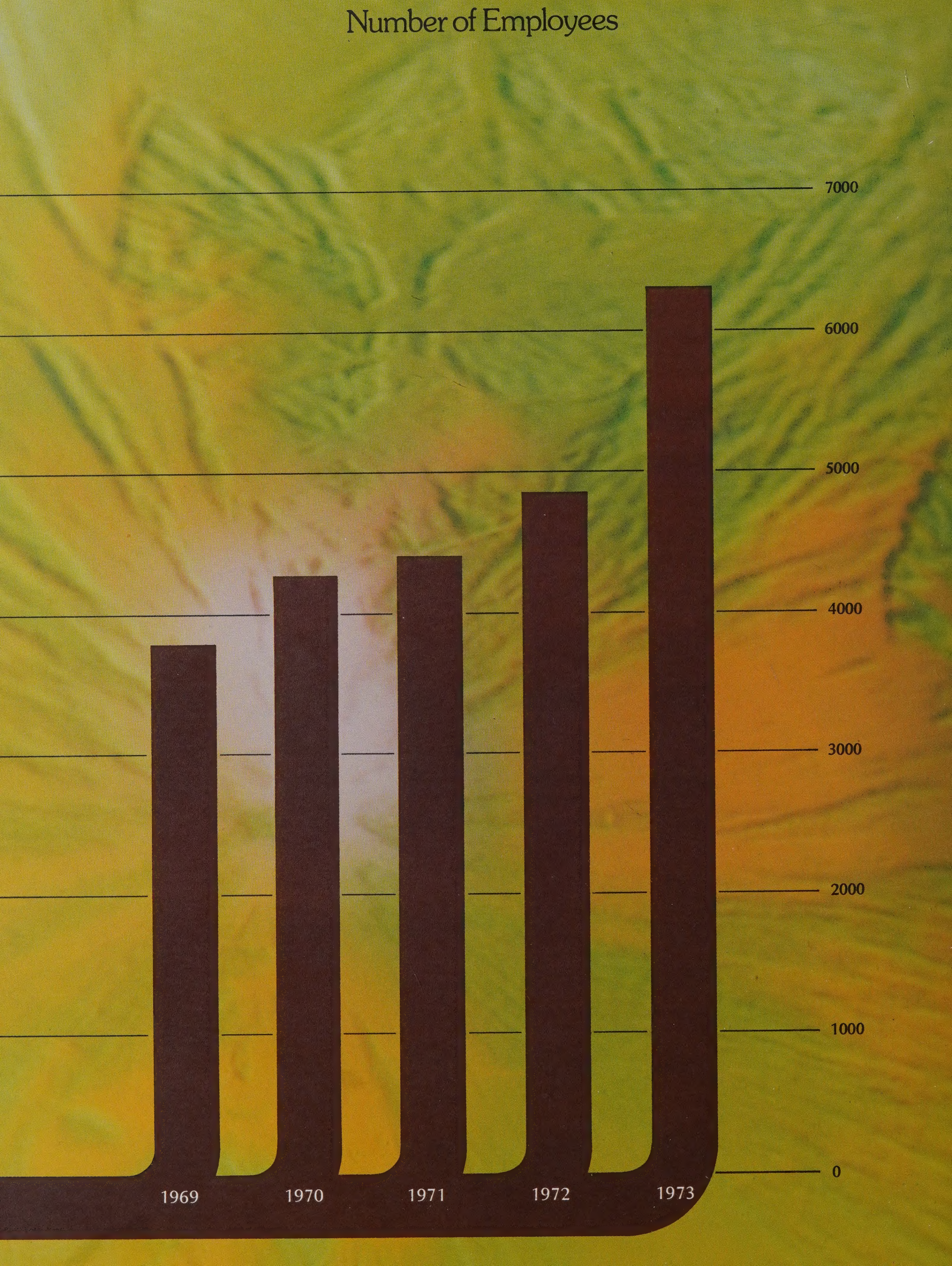
Although global economic conditions in 1974 will not be as favourable as in the past year, the demand for POLYSAR latices in the textile and paper industries should remain strong. Sales are expected to increase but at a more moderate rate than during the past few years.

Plastics

"— the goal is to be an integrated, multi-business operation in both North America and Europe, providing plastics components to selected segments of the packaging, furniture and construction industries with supportive production and sales of polystyrene resin."

For the fourth consecutive year, the plastics group achieved significant growth in sales and profits. Sales were up by 50 percent over 1972 and profits increased threefold. Despite some shortfalls in the supply of styrene monomer, strong performance was recorded in polystyrene resins, spurred by high world-wide demand and rising prices. Although sales of fabricated products were also higher, increased costs and the introduction in the United States of profit margin controls had a limiting effect on profitability of these operations.

In July, the number of plastics operations in Canada was increased with the acquisition of General Plastics Company Limited of Cookshire, Quebec. This company, Polysar's first manufacturing facility in Quebec, fabricates plastic food service items, housewares and



Number of Employees
7000
6000
5000
4000
3000
2000
1000
0
1969
1970
1971
1972
1973

specialty packaging for the growing Canadian market. Production capacity was expanded and product lines enlarged.

Of major importance also was the acquisition in December of a substantial interest in the Bellaplast group of companies, a major European producer of plastic packaging products. It broadens Polysar's reach in the plastics industry internationally and strengthens the company's technological competence.

A new polystyrene plant in Forest City, North Carolina, was completed and started up during the year. It utilizes a polymerization process developed by Polysar and is now supplying resin to Polysar's moulding operation in that area and to the merchant market.

The 1974 business year will be influenced by many of the same environmental factors which affected 1973. Continuing shortage of styrene monomer is expected to restrict U.S. resin operations. Rapidly rising raw material and labour costs, shortages of resin used in fabrication and limited profit margins in the United States which resulted from Phase IV controls are key problems which will receive concerted management attention.

Building Systems

"—we seek a position as a major builder-developer furnishing high quality housing based on the modular concept at a cost competitive with that of the conventional builder."

The past year witnessed significant re-orientation of the building systems division. Problems in design, production and marketing which became apparent early in the year were analyzed with the assistance of consultants experienced in the field of modular housing. As a result, divisional management was strengthened and a new strategic plan formulated and adopted.

The new thrust emphasizes the development of a major builder-developer capability. It involves substantial product design and production changes, acquisition of developed land or land near to development stage, and specialization in the townhouse condominium market which is increasing significantly in the total market for housing.

This approach permits control of site development and product design and makes possible the volume required for efficiency in the mass production factory process. It is considered essential to success in the modular housing industry.

A substantial loss was incurred in 1973 primarily as a result of production delays, costs of re-design and re-tooling and write-offs of prior commitments. By year-end, the new programs were well advanced. Production changes were completed, prototype projects erected and townhouse production started. Site work was initiated on four projects in the Kitchener-Waterloo area and several townhouse sites acquired in four other Ontario centres for projects scheduled to start in the spring of 1974. An apartment building for senior citizens started in late 1972 was successfully completed.

Conventional housing costs increased at a record pace in 1973. Continued escalation and a shortage of skilled labour are expected to provide greater opportunities for a factory-produced product. Increased factory productivity and testing of the marketing concept are the key challenges for 1974.

Information Processing

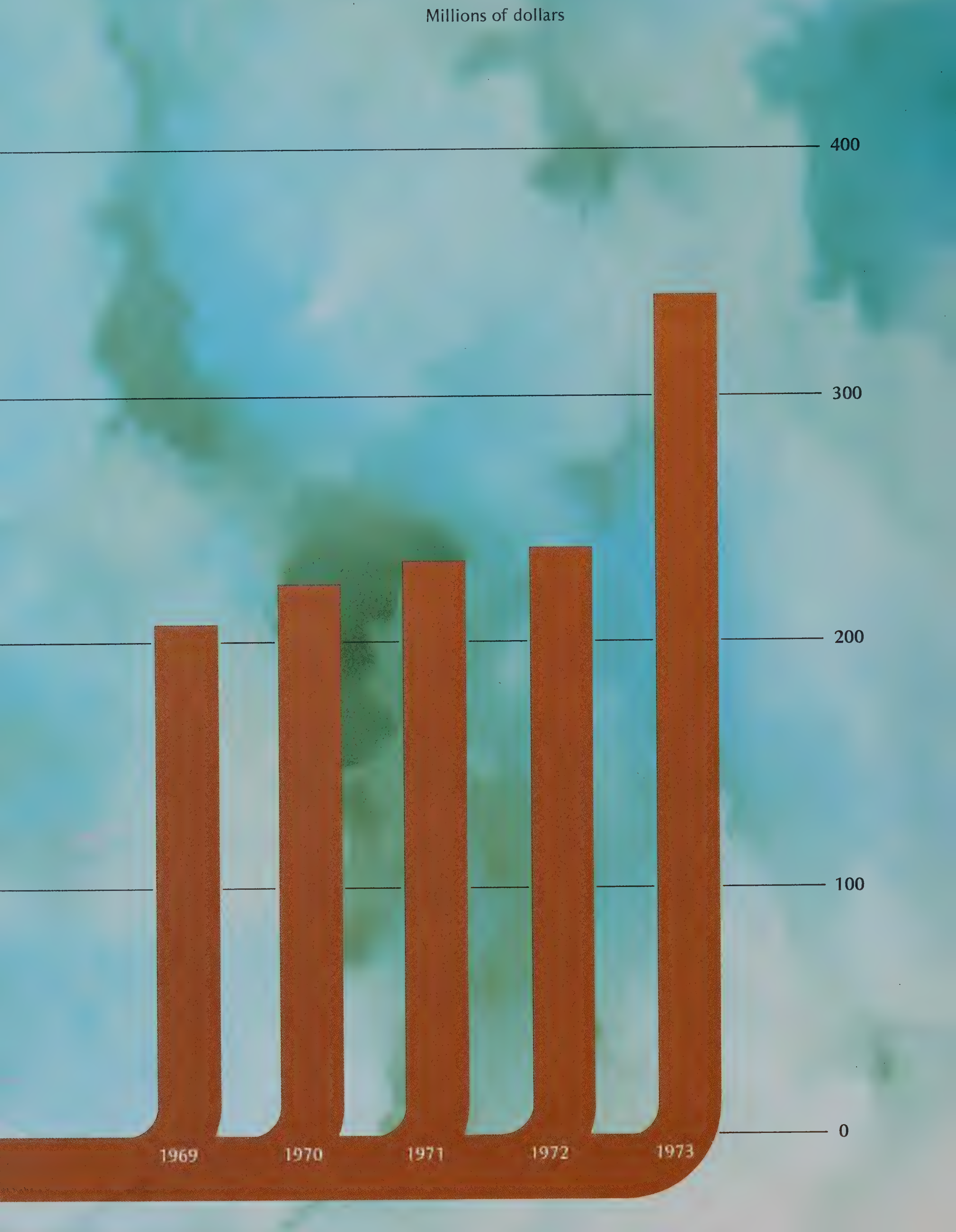
"—our objective is to be a major vendor offering on-line computer services to key industry sectors in Canada, the United Kingdom and other international markets."

Polysar's investment in the information processing sector, through its majority holding in Com-Share Limited, showed steady progress during 1973. Sales by the Canadian operation increased notably over the preceding year, while the United Kingdom subsidiary based in London displayed excellent growth in its second full year of operation. Both operations concluded new long-term computer lease arrangements with Xerox Corporation whereby computer hardware will be replaced by that company's most powerful and modern computer, the Sigma 9. The improved price-performance of this equipment, together with improved software packages, should enable Com-Share to maintain competitiveness in the marketplace.

Towards the end of the year, a joint venture agreement was concluded with a leading Japanese management consultancy-computer group. Inauguration of a new company, Miroku-Com-Share is anticipated during the latter half of 1974, assuming approval is received from the Japanese government.

With rapid inflation in labour costs throughout the industrial world, Com-Share offers a service that can minimize the high fixed cost element in data processing functions. Thus, despite the economic and political uncertainties in the United Kingdom, the climate of change in North America and the keen competition it faces, Com-Share is optimistic that further improvements in performance can be achieved in 1974.

Total Assets



The year in review...financial

Net Income
Progress toward a more acceptable level of profitability was reflected in a return on shareholders' equity of 8.2% versus 5.9% in the previous year. Net income before extraordinary items in 1973 amounted to $12.6 million, an increase of 45% over the previous year and equivalent to $6.30 per share. After giving effect to extraordinary items of $1.5 million (see Note 9 to the financial statements) net income was $11.1 million or $5.55 per share, compared with $7.4 million or $3.69 per share in 1972.

Net Sales
For the third consecutive year net sales revenue showed improved rate of growth. Sales of products and services rose by 28% to $257.1 million, the result of strong demand and increased prices for rubber, latex and plastics products in response to buoyant economies through most of the year. Continuing the growth pattern of recent years revenues from the rubber business increased by 28%, from the latex business by 38% and from plastics by 47%. The information processing business also achieved a notable increase in sales chiefly because of expansion outside of Canada. Abetting these performances was the higher value of most foreign currencies in relation to the Canadian dollar. Revenue from the building systems division was minimal in 1973.

Other Income
Other income of $4.2 million remained close to the same level as the previous year. Both interest earnings and revenue from sales of technology increased while royalties and income from participation in government programs declined.

Cost and Expenses
Cost of products sold as a ratio of sales continued to improve, declining to 82.5% compared with 83.6% in 1972 despite significantly higher costs in the building systems division. Emphasis on cost reduction efforts was heightened as a means of countering the rapidly escalating costs of raw materials and supplies. Marketing, development, research and administrative expense increased to $25.2 million but declined to 9.8% of sales from 10.4% in the previous year. Interest expense increased to $7.0 million from $5.2 million in 1972 as a result of the significantly higher level of debt financing and the higher cost of borrowing.

Inflationary pressures were also reflected in employment costs. Total employee compensation including benefits amounted to $61.6 million or 24% of the company's total income in 1973 compared with $51.0 million in 1972, while the average compensation per employee increased by 10%. During the year the number of employees averaged 9% higher than the previous year as a result of expanded operations and newly acquired companies.

Income Taxes
The increase in income taxes to $4.6 million in 1973 from $3.0 million in 1972 is the result of higher profits in certain subsidiary companies. As explained in Notes 1 (h) and 8, the Polysar companies carry on operations in various locations involving significantly different tax rates and regulations. Full provision is made for the income taxes payable by each company.

Income taxes reflect the utilization of prior years' losses to reduce current income taxes of certain subsidiaries. The tax reduction from such loss carry-forwards amounted to $0.6 million in 1973 compared to $2.1 million in 1972. Certain companies have not reached profitable operations and losses are available to reduce future years' taxes. The potential tax benefits of these losses have not been recognized in the accounts. At current tax rates, tax reductions from the utilization of such losses would amount to about $14 million.

Acquisitions
Late in the year a substantial interest was acquired in the Bellaplast group of companies in Europe. Also acquired in 1973 were the General Plastics Company Limited in Cookshire, Quebec and the custom compounding operations of Nye Rubber Company (now Polysar Rubber Services) in Barberton, Ohio. These transactions resulted in Goodwill of $12.7 million and in an increase in Investments In Other Companies of $2.7 million. Goodwill, which represents the difference between the cost of the investments and the book value of the net assets acquired, is being amortized over periods not exceeding 20 years.

Working Capital
During the year working capital increased by $22.2 million to $77.3 million. The current ratio at December 31, 1973 stood at 1.9 to 1 unchanged from the end of the prior year.

Funds generated from operations amounted to $30.5 million compared with $25.7 million in 1972 chiefly because of the higher level of profits. These funds, plus proceeds from additional long-term debt and from the sale of capital assets, were applied to acquire fixed assets of $45.1 million and other assets of $27.6 million, to retire $7.2 million of long-term debt and to provide a dividend payment of $1.2 million.

Cash Generation

Millions of dollars

Within working capital, trade receivables increased by $24.6 million to $85.7 million as a result of strong sales particularly in the last quarter of the year; cash and short-term investments at year-end of $30.4 million were temporarily higher than last year by $23.1 million reflecting investment of part of the proceeds of a debenture issue; short-term loans increased by $13.2 million to $36.2 million and payables at $39.0 million were higher by $10.0 million—as a result of the higher level of business activity.

Capital Spending

Expenditures during 1973 for fixed and other assets including investments in other companies and goodwill amounted to $61.0 million which is substantially above the levels of previous years. Major items accounting for this higher outlay included: completion of the Antwerp butyl expansion committed in 1972, additional latex facilities at Strasbourg also initiated in 1972, increased rubber capacity at Sarnia, expansion of plastics facilities at several locations in the U.S., and the acquisitions referred to previously.

Capital expenditures in 1974 are expected to increase primarily as a result of commitments to the Petrosar Limited petrochemical project and Polysar's world-scale styrene plant, both in the Sarnia area.

New Financing

During the year new long-term debt amounted to $71.8 million. In Canada, $35.0 million of 9% debentures (Series B), maturing in 1993, were issued. Part of the proceeds was used to reduce short-term debt and the balance is available to finance corporate requirements in 1974. In Europe, loans in Belgium francs and German marks equivalent to $12.4 million and $13.0 million respectively, were arranged to finance expansion of butyl rubber production capacity and to meet acquisition needs. Further long-term debt aggregating $9.5 million resulted from acquisition of interests in other companies in 1973. Repayment of long-term debt during the year amounted to $7.2 million.

Foreign Exchange Factors

Financial statements of companies located outside Canada are prepared in local currencies and are translated into Canadian dollars following generally accepted accounting principles of exchange translation (see Note 1 (g)). The general weakening of the U.S. (and Canadian) dollar relative to other major currencies through most of 1973 had a favourable effect on profits.

Since the beginning of 1974 however, the Canadian dollar has moved ahead of the U.S. dollar and has appreciated with respect to most other major currencies. Uncertainties regarding the Middle East oil situation remain and unstable conditions continue in the flow of international moneys.

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
	Thousands of Dollars	
Income		
Net sales of products and services	$257,126	$201,426
Other (Note 10)	4,231	4,202
	261,357	205,628
Expense		
Cost of sales	212,227	168,447
Selling, administration and research	25,205	20,978
Interest on long-term debt	4,698	4,061
Interest on short-term debt	2,352	1,172
Currency translation loss (gain)	(377)	–
	244,105	194,658
Net income before taxes, extraordinary items and minority interest	17,252	10,970
Current income tax (Note 8)	3,862	2,994
Deferred income tax	742	(8)
	4,604	2,986
Net income before extraordinary items and minority interest	12,648	7,984
Extraordinary items, net (Note 9)	1,502	1,299
Net income before minority interest	11,146	6,685
Minority interest	54	(693)
Net income	$ 11,092	$ 7,378
Income Per Share		
Before extraordinary items	$6.30	$4.34
Extraordinary items, net	(.75)	(.65)
Net income	$5.55	$3.69

CONSOLIDATED STATEMENT OF RETAINED INCOME

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
	Thousands of Dollars	
Balance at beginning of year, as originally stated	$ 94,109	$ 87,801
Adjustment to reflect equity accounting for investment (Note 4)	1,043	723
Balance, as restated	95,152	88,524
Net income for the year	11,092	7,378
	106,244	95,902
Dividend	1,200	750
Balance at end of year	$105,044	$ 95,152

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
	Thousands of Dollars	
Source of Funds		
Current operations		
Income before extraordinary items	$ 12,594	$ 8,677
Items not requiring a current outlay of funds		
Depreciation	15,883	15,026
Amortization of intangible assets	1,259	1,265
Other	796	686
Funds from operations	30,532	25,654
Proceeds of long-term debt	71,791	1,945
Sale of capital assets	988	3,608
	103,311	31,207
Use of Funds		
Additions to fixed assets	45,120	19,225
Real estate investments	6,052	–
Other investments	2,954	–
Long-term receivables	3,134	–
Repayment of long-term debt	7,233	6,804
Goodwill	12,683	–
Dividend	1,200	750
Other	2,780	4,124
	81,156	30,903
Increase in Working Capital	$ 22,155	$ 304
Working Capital at beginning of year	$ 55,111	$ 54,807
Increase (Decrease) in Working Capital		
Cash and short-term investments	23,096	(8,908)
Accounts receivable	24,638	8,817
Inventories	3,461	895
Other current assets	(82)	638
Short-term debt	(13,231)	(1,795)
Accounts payable and accrued liabilities	(10,044)	(2,069)
Income taxes	(2,810)	487
Other current liabilities	(2,873)	2,239
Increase in Working Capital	22,155	304
Working Capital at end of year	$ 77,266	$ 55,111

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1973
(with comparative figures for 1972)

Assets

	1973	1972
	Thousands of Dollars	
Current		
Cash	$ 3,706	$ 1,498
Short-term investments, at cost which approximates market	26,734	5,846
Accounts receivable, less allowance for doubtful accounts	85,665	61,027
Inventories, at lower of cost or net realizable value:		
Finished products	25,886	25,558
Other	21,292	18,159
	47,178	43,717
Prepaid expenses	1,877	1,959
Total Current Assets	165,160	114,047
Long-term		
Receivables	3,134	–
Real estate investments (Note 3)	6,052	–
Investments in other companies (Note 4)	8,319	5,782
Property, Plant and Equipment, at cost	339,411	283,405
Less: accumulated depreciation	201,118	173,701
	138,293	109,704
Other, at cost less amortization		
Deferred charges	4,982	3,964
Patents and technology	2,902	3,567
Goodwill	12,609	–
	$341,451	$237,064

The accompanying notes are an integral part of the financial statements.

On behalf of the Board

I.C. Rush, Director

D.C.H. Stanley, Director

Liabilities and Shareholders' Equity

	1973	1972
	Thousands of Dollars	
Current		
Short-term loans	$ 36,202	$ 22,971
Accounts payable and accrued liabilities	39,035	28,991
Income and other taxes	3,873	1,063
Long-term debt due within one year	8,784	5,911
Total Current Liabilities	87,894	58,936
Long-term Debt (Note 5)	112,693	48,135
Deferred Income Taxes	5,078	4,153
Minority Interest in Subsidiaries	742	688
Total Liabilities	206,407	111,912
Shareholders' Equity		
Capital stock		
Authorized - 3,000,000 common shares of no par value		
Issued - 2,000,000 common shares fully paid	30,000	30,000
Retained income	105,044	95,152
Total Shareholders' Equity	135,044	125,152
	$341,451	$237,064

NOTES TO FINANCIAL STATEMENTS
Year ended December 31, 1973

1. Summary of Significant Accounting Policies
(a) Principles of Consolidation

The consolidated statements reflect the financial position and the results of operations of Polysar Limited and its subsidiary companies. All intercompany balances and transactions have been eliminated on consolidation.

Investments in other companies where Polysar Limited has acquired more than 20% and less than 50% interest have been accounted for on the equity method. Under this method, the company's share of the net income of these companies is included in current operations rather than when realized through dividends, and the investments are carried at original cost plus the company's share of undistributed earnings since acquisition.

(b) Leases

Certain office and production facilities are held under long-term leases, which include various purchase options. The cost of these assets, amounting to approximately $26.0 million at December 31, 1973, and the related long-term debt have been capitalized.

(c) Depreciation

Depreciation of buildings and equipment is based on the estimated useful life of the assets, calculated on the straight-line or diminishing balance method as considered most appropriate for each company included in the consolidation.

(d) Deferred Charges

Pre-production expenses incurred in connection with major new production facilities are amortized on the straight-line method over a period not exceeding five years from commencement of production. Other deferred charges are absorbed against income in the periods to which they are applicable.

(e) Patents and Technology

Patents and technology are amortized on the straight-line method over their estimated economic useful life, generally not in excess of five years.

(f) Goodwill

Goodwill arises through the acquisition of subsidiary companies and is being amortized on the straight-line method over the periods deemed to be benefited by the expenditures which in the current instances are not in excess of 20 years.

(g) Foreign Exchange

Consolidation of non-Canadian current assets and liabilities has been made at rates of exchange in effect at the end of the year; all other assets, including applicable depreciation, and liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expense, except depreciation, at rates in effect during the year.

Profits and losses resulting from revaluation of net working capital to reflect changes in currency values are included in the statement of income for the year. In prior years these profits and losses have been treated as extraordinary items but because of the frequent changes in currency values they are now considered as part of normal operations.

In the event that exchange rates prevailing at December 31, 1973 were to prevail during the years 1974 to 1992 the amount of long-term debt less long-term receivables would increase by approximately $1.0 million.

(h) Income Taxes

Full provision is made for all income taxes in determining reported net income. The timing of certain expenses claimed for tax purposes differs from the timing for financial statement purposes. As a result of these differences part of the income taxes deducted in determining reported net income are not payable until future years and are shown on the balance sheet as deferred income taxes.

2. Acquisitions
During the year, the company acquired substantial interests in companies in Canada, the United States and Europe, the largest of which was in the Bellaplast group of companies, and the accounts of these companies have been included in the consolidation from their respective dates of purchase on the basis described in Note 1(a). The transactions involved the following consideration:

	Thousands of Dollars
Cash	$ 5,235
Balance payable from 1974 to 1978	14,873
	$20,108

The following net assets were acquired in the transactions:

Net tangible assets at book value on the subsidiaries' records	$ 7,425
Goodwill, to be amortized against income over periods not exceeding 20 years	12,683
	$20,108

3. Real Estate Investments

The company has entered the condominium-townhouse market and has purchased land and commenced the construction of modular housing units. Projects under construction at December 31, 1973 were valued at estimated realizable value and unimproved land was valued at cost. The land was subject to mortgages at December 31, 1973 of $1,833,000.

4. Investments in Other Companies

The company changed its method of accounting for investments in other companies in 1973 from the cost to the equity method which has required restatement of the financial statements of the prior year to adjust income and retained income for the variances between dividends previously recorded and the company's proportionate share of income now recorded, as follows:

	Thousands of Dollars		
	Dividends	Share of Income	Variances
Prior to December 31, 1971	$299	$1,022	$723
Year ended December 31, 1972	274	594	320
Year ended December 31, 1973	282	576	294

The excess of cost of investments in other companies over the company's equity in the net book value of the underlying assets amounts to approximately $1.7 million at December 31, 1973 and is being accounted for in the manner outlined in note 1(f).

5. Long-term Debt

Loans repayable	Thousands of Dollars
In French francs (Fr. 25,500,000) during the years 1974 to 1980 bearing interest at rates varying from 7.25% to 10.6%	$ 5,199
In Belgian francs (Fr. 200,000,000) during the years 1974 to 1977 bearing interest at 6.5% and secured by a mortgage on certain land and buildings	4,450
In Belgian francs (Fr. 481,463,000) under lease arrangements during the years 1974 to 1992 bearing interest at 6.56% and 9.86%	12,524
In Swiss francs (Fr. 25,000,000) during the years 1975 and 1976 bearing interest at a variable rate with a minimum of 6.785%	6,244
In German marks (DM 58,330,000) during the years 1974 to 1985 bearing interest at rates varying from 2.5% to 10.375%	21,494
In United States dollars under lease arrangements during the years 1974 to 1985 bearing interest at 9.75%	10,701
In United States dollars (U.S. $5,428,000) during the years 1974 to 1989 bearing interest at rates varying from 5% to 15%,a portion of which is secured by mortgages on certain fixed assets.	5,479
Debentures	
In Canadian dollars: Serial Debentures Series A bearing interest at 7.5% repayable on November 1, 1974	1,000
Sinking Fund Debentures Series A bearing interest at 7.5% maturing November 1, 1987	13,000
Sinking Fund Debentures Series B bearing interest at 9% maturing November 15, 1993	35,000
Other	6,386
	121,477
Less portion of long-term debt due within one year included in current liabilities	8,784
	$112,693

Sinking fund requirements and the portion of long-term debt due in each of the next five years are as follows:
1974 – $8.8 million; 1975 – $14.0 million; 1976 – $12.2 million; 1977 – $20.6 million; 1978 – $5.8 million.

6. Commitments

At December 31, 1973 the company and its subsidiaries were committed to spend approximately $17.1 million for acquisition of capital assets.

7. Pension Plans

The unfunded past service liability of the pension


Return on Equity
Percent
14
12
10
8
6
4
2
0
1969
1970
1971
1972
1973

plans relating to employees of the company and its subsidiaries is being funded over the next sixteen years with annual charges against operations of approximately $420,000.

8. Current Income Tax

Income tax on a consolidated basis is computed on the operating results of many domestic and foreign subsidiaries, some of which sustained operating losses while others earned income subject to varying rates of tax. The company does not give recognition to the potential future tax benefit represented by current losses. Prior loss carry-forwards effectively reduced taxes which would otherwise be payable by subsidiaries in the year ended December 31, 1973 by $550,000 and in the year ended December 31, 1972 by $2,128,000. On a consolidated basis these recurring tax recoveries are not considered to be extraordinary in nature, and are accordingly reflected as reductions of current income taxes when realized. Substantial future tax offsets are available from domestic and foreign operations.

9. Extraordinary Items, Net

	Thousands of Dollars Gains (Losses) 1973	1972
Currency revaluation [Note 1(g)]	$ –	$ (375)
Sale of investment and other assets	(68)	1,046
Write-off of initial investment relating to building systems and of certain further costs incurred in connection therewith	$(1,434)	$(1,970)
	$(1,502)	$(1,299)

10. Supplementary Information

Other income includes interest, royalties, proceeds from the sale of technology, income from participation in government programs, and equity share of income from investments in other companies. The accounts for 1973 include remuneration of 14 directors of the company as directors $45,500 and remuneration of 11 officers of the company as officers $522,300. Two officers of the company are also directors.

11. Contingency

Polysar Limited is or may become a defendant with others in several legal actions claiming an aggregate of $10 million in respect of product liability. The company has denied or will deny liability. One of the actions is being defended on behalf of the company by its insurers. The other actions have been referred to the company's product liability insurers. However, the ultimate liability, if any, to the company is presently not determinable.

12. Subsequent Event

Early in 1974 the company agreed in principle to acquire for $25.5 million, a 51% interest in Petrosar Limited, a company being incorporated to build a $255 million crude oil topping and naphtha cracking unit in the vicinity of Sarnia, Ontario. It is proposed that the excess of the cost over the capital contributed will be financed from outside sources and will be guaranteed by the shareholders. Canada Development Corporation has agreed in principle that it will furnish to Polysar in 1974 or 1975 an aggregate amount of up to $25 million to enable Polysar to make such investment and that it will in addition provide a back-up guarantee in respect of any completion guarantee which Polysar may be required to furnish in connection with this project.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Polysar Limited and subsidiary companies as of December 31, 1973 and the consolidated statements of income, retained income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as of December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in method of accounting for investments in other companies described in note 4 of the notes to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Canada
February 22, 1974.

Ten Year Review
in millions of dollars except where noted

		1973	1972	1971
Operating Results				
Net sales and other income		**261.4**	205.6	174.9
Income before taxes and extraordinary items		**17.2**	11.7	1.1
Income taxes		**4.6**	3.0	(0.5)
Extraordinary items		**1.5**	1.3	0.8
Net Income		**11.1**	7.4	0.8
Performance				
Earnings per share	$	**5.55**	3.69	0.40
Return on sales	%	**4.2**	3.6	0.5
Return on shareholders' equity	%	**8.2**	5.9	0.7
Income related data				
Depreciation provided		**15.9**	15.0	13.8
Cash generation		**30.5**	25.7	14.5
Capital spending		**61.0**	20.0	29.8
Dividends		**1.2**	0.8	0.5
per share	$	**0.60**	0.38	0.25
Financial position				
Working capital		**77.3**	55.1	54.8
Investments		**8.3**	5.8	10.6
Net fixed assets		**138.3**	109.7	105.6
Other assets		**29.7**	7.5	5.0
Financed by				
Capital stock		**30.0**	30.0	30.0
Retained income		**105.0**	95.2	88.5
Long-term debt		**112.7**	48.1	51.6
Other		**5.8**	4.8	5.9
Other data				
Salaries, wages and benefits		**61.6**	51.0	45.1
Number of employees at year-end		**6,317**	4,856	4,414
Rubber and resin production, millions of pounds		**1,135**	985	856

1970	1969	1968	1967	1966	1965	1964
157.2	160.5	144.3	128.0	127.5	117.5	114.3
9.6	19.9	11.3	6.4	13.5	12.9	13.7
0.6	5.5	3.0	1.5	2.3	2.6	4.3
1.5	–	0.8	–	–	–	–
7.6	14.3	7.5	4.9	11.2	10.3	9.4
3.79	7.16	3.74	2.43	5.61	5.15	4.72
4.8	8.9	5.2	3.8	8.8	8.8	8.3
6.4	12.6	7.1	4.7	11.2	10.7	10.4
13.1	13.6	13.2	10.3	8.7	8.8	8.9
19.6	27.1	21.5	18.1	23.0	21.5	19.6
29.3	9.1	12.1	21.9	26.3	8.9	7.8
3.0	6.0	3.0	3.0	4.5	4.5	4.0
1.50	3.00	1.50	1.50	2.25	2.25	2.00
57.0	70.2	59.4	52.8	42.3	52.0	45.5
11.6	6.4	6.0	5.6	6.5	4.3	2.8
90.5	79.5	84.0	86.8	75.4	60.2	61.9
4.4	4.1	5.6	6.8	5.8	4.8	5.9
30.0	30.0	30.0	30.0	30.0	30.0	30.0
88.2	83.6	75.3	72.2	70.3	66.2	60.4
37.6	38.3	40.1	40.9	22.0	20.1	21.5
7.7	8.3	9.5	8.9	7.8	4.9	4.1
39.5	34.3	33.2	32.5	29.6	25.6	23.6
4,277	3,799	3,722	3,976	3,911	3,605	3,433
801	732	685	617	593	555	532

Directors

PIERRE R. GENDRON, Montreal, Quebec
□ President, Pulp and Paper Research Institute of Canada

H.A. HAMPSON, Toronto, Ontario
□■ President and Chief Executive Officer, Canada Development Corporation

W. LADYMAN, Winnipeg, Manitoba
Member, Economic Council of Canada

WILLIAM STEWART McGREGOR,
Edmonton, Alberta
President, Numac Oil & Gas Ltd.

E.R. ROWZEE, Sarnia, Ontario
□ Chairman of the Board, Polysar Limited

I.C. RUSH, Sarnia, Ontario
□■ President and Chief Executive Officer, Polysar Limited

D.C.H. STANLEY, Toronto, Ontario
■ Vice-President and Director, Wood Gundy Limited

RON W. TODGHAM, Windsor, Ontario
□■ President, Chrysler Canada Ltd.

F. CAMERON WILKINSON,
Vancouver, British Columbia
President, Wilkinson Company Limited

Officers

E.R. ROWZEE,
Chairman of the Board

I.C. RUSH,
President and Chief Executive Officer

R.S. DUDLEY,
Group Vice-President, Rubber and Latex

G. BRACEWELL,
Vice-President, Finance and Planning

E.J. BUCKLER,
Vice-President, Research and Development

C.A. McKENZIE,
Vice-President, Rubber,
Europe and Rest of World

J.R. PROVO,
Vice-President, Plastics

W.J. DYKE,
Secretary and Chief Legal Officer

M.E. ERLINDSON,
Corporate Treasurer

□ Member of the Executive Committee

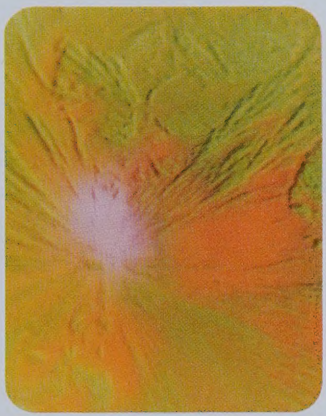
■ Member of the Audit Committee

As a multi-business corporation providing products and services on an international scale, Polysar has many images. Depicted through this report and reproduced below are some unusual views of a few POLYSAR products. Except as noted these photographs were taken with a 90 mm Super Angulon lens using Ektacolour L film and enlarged 18 times.

Polystyrene Pellets

SS—250 Pellets

Light Micrograph of Trans-Pip at 320 X



Krynac Crumb

Butyl sample with entrapped air bubbles

Taktene Mooney Sample

POLYSAR*